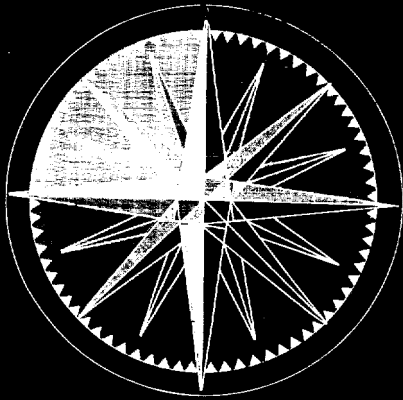


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14 May 1965

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SPECIAL REPORT

ECONOMIC AND POLITICAL PRESSURES ON COLOMBIAN GOVERNMENT

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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ECONOMIC AND POLITICAL PRESSURES ON COLOMBIAN GOVERNMENT

A variety of economic and political pressures threaten the survival of Colombia's National Front government under President Guillermo Valencia, at best an uncertain leader. The threat stems in part from power struggles within the coalition itself and from the increased strength of its opposition in Congress. In addition, popular discontent is widespread, and business and labor leaders are dissatisfied because government measures to combat inflation and devise a more equitable tax system have been inadequate.

Last January labor demands for tax and other reforms were so strong that the government averted a showdown only by establishing a commission to study the situation and agreeing to call a special session of Congress in late April to consider its recommendations. It is in this special session that the coalition and opposition power struggles now are taking place.

Military leaders are showing concern. They recently pledged their support to Valencia but dropped a thinly veiled warning that they would not tolerate his failure to take some remedial action soon.

Political Situation

The National Front is an artificial coalition of the Liberal and Conservative parties --Colombia's two largest--which was contrived in 1958 to put an end to a decade of civil war. Under the terms of the coalition agreement the presidency is to alternate every four years between a Liberal and a Conservative, and all government positions, whether elective or appointive, are to be divided evenly between the two parties.

The coalition's major purpose was to provide a mechanism which would force the warring Conservatives and Liberals to cooperate in government until 1970--later extended to 1974--and induce them to devise a system of competing without violence thereafter. For the most part, the scheme has succeeded thus far but may have outlived its usefulness.

The general public has become increasingly disillusioned with the National Front.

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COLOMBIAN PRESIDENT VALENCIA

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particularly in the past eight to twelve months. Shortages of basic goods--particularly meat and milk, at present--and the usual pressures of inflation have induced widespread cynicism about the political system and its leaders. The public has come to believe that nothing will change for the better no matter who wins the congressional elections next March, and the presidential elections the following May.

The pernicious apathy of the voters was demonstrated during the congressional elections in March 1964, when a mere 30 percent of the electorate cast ballots. As a result, the followers of ex-dictator Gustavo Rojas Pinilla, organized as the National Popular Alliance (ANP) but running nominally as Conservatives, snapped up most of the 20 seats the National Front lost. The front, which must have a two-thirds majority to pass any meaningful legislation, now

can claim only two thirds plus two. Considering the almost total lack of discipline in the coalition parties, the administration is virtually paralyzed.

A large number of Colombians--possible a majority--of varying degrees of political sophistication, including members of both major political parties as well as those on the more radical right and on the left, would welcome an orderly transition to a more conventional form of self-government as soon as possible. Some few care less for order than for speed, and their vociferousness and obstreperousness make their numbers seem greater than they really are. They are dangerous, however, because they set the scene for demagoguery, political radicalism, and illegality.

Recently, a schism in the Conservative Party has widened as Conservative congressmen

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opposed to the presidential candidacy of Liberal Carlos Lleras Restrepo--the presumed National Front candidate in 1966--joined with congressmen of Rojas Pinilla's ANP and of the Liberal Revolutionary Movement (MRL) in an effort to elect the officers of the present special session. Loyal "official" Conservatives demanded that President Valencia consider the defectors outside the Conservative fold and therefore ineligible for cabinet and other appointive positions. The resultant hue and cry threatened to cause a serious crisis, and started rumors of a pending state of siege or a military coup. Lleras has resigned his unofficial candidacy and this withdrawal may permit Congress to get to work on the tax reform bills. President Valencia has survived two other major political crises since September, but lost some of his support each time. His losses this time, if any, cannot yet be estimated.

Economic Situation

Colombian economic performance has been generally poor in the last few years; in real terms gross domestic product grew 3.8 percent in 1963 and between 3 and 4 percent in 1964. Investment activity has been sluggish after growing rapidly from 1958 to 1960. The government failed to implement an ambitious program of public sector investment and private investment declined, in real terms, in 1961-1963. Incomplete data indicate that a modest recovery in investment activity occurred in 1964.

A major domestic issue presently facing the country involves the threat of inflation. The combined effects of excess monetary liquidity, annual budgetary deficits, and the inability to implement effective wage and price controls led to a period of severe inflation lasting from late 1962 through mid-1964. During that period price levels rose 45-50 percent for most consumers. Although budgetary deficits in 1963 and 1964 were reduced and a policy of monetary restraint softened inflationary pressures in the economy, the threat of another period of rapid price increases is serious. Special revenue measures (e.g., a surcharge on income taxes) which enabled the government to narrow the budget gap in 1963 and 1964 are no longer in effect and it seems unlikely that government spending will be kept within the programmed ceiling. There is a strong possibility therefore that a deficit of about 500 million pesos--one third of scheduled investment spending for the year--will be generated in 1965.

The threat of resurgent inflation is also made serious by current pressures on the country's exchange rate system. Colombia maintains multiple exchange rates. In September 1964, general uneasiness produced a run on the overvalued "pegged" free rate which forced the Bank of the Republic to cease supporting the currency at the rate often Colombian pesos to one US dollar. The present free rate of exchange is about 15 pesos per dollar. The official selling and coffee export rates

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are still maintained at over-valued rates.

Although President Valencia has unequivocally committed his administration to a policy of no devaluation, the ability of the Bank of the Republic to maintain the present overvalued rates is doubtful. Speculation and political uncertainty are exerting continuous upward pressure on the rates while, at the same time, the Bank of the Republic has only 20-30 million dollars left with which to support them. Moreover, Colombia's international credit position has suffered considerably and the country may find it difficult to acquire even short-term commercial credit with which to buttress international reserves.

Violence and Insurgency

Colombia has a long history of banditry, and the ethnic and topographical make-up of the country seems to make it fertile ground for such lawlessness. To this tradition of violence a new feature has now been added. A "National Liberation Army" (ELN), estimated at about 500 men and women, including urban sympathizers, has formed around a cadre of at least twenty-two young insurgents trained in Cuba. A group of fifty of these men began guerrilla operations in January, and since that time Colombian officials have attributed to this "army" three armed assaults against Colombian towns.

Although the attacks may not have been of a high order of skill and effectiveness, they are significant in that they are political in purpose, and that they have so far gone relatively unpunished.

Moreover, the insurgents are operating in a country which already has certain small parts of its territory virtually closed to legitimate government administration and control (the so-called Communist enclaves, ruled by armed, Communist-led bands).

Although quite successful in recent years against traditional banditry, government law-enforcement agencies have had little success in coping with the new political violence. They lack unity of command between the army, the national police, and the Administrative Department of Security (DAS), all of which have counterinsurgency responsibilities. Moreover, the country lacks a juridical basis for adequate punishment of insurgents. Consequently the morale of the law enforcement agencies is low.

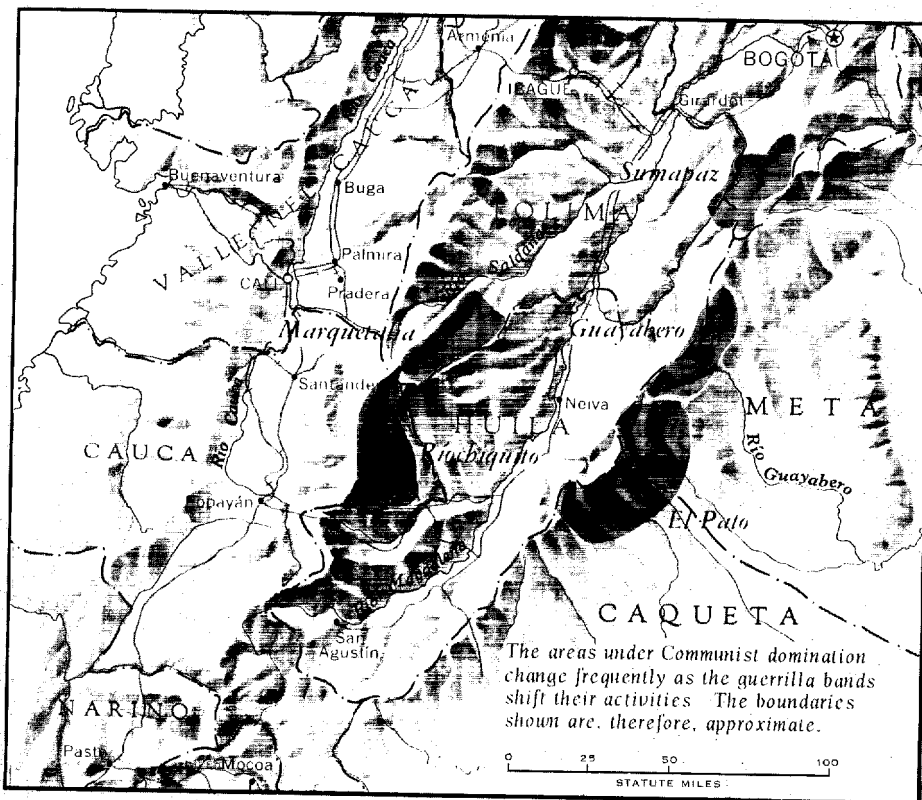
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COLOMBIA

Communist-Dominated Areas



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Another significant factor in the Colombian scene is the mood of the oligarchy. Hitherto either inured to or relatively untouched by banditry and violence, this wealthy and politically powerful segment of the population is now pervaded by uneasiness sometimes bordering on panic because of the upsurge of kidnappings--130 cases in the past year--for which the wealthy are the natural targets. The kidnap-murder of industrialist Harold Eder in March-April caused an emotional reaction against the military for failing to protect citizens against violence, but the government was not seriously endangered by the reaction.

Now that kidnaping has become a popular form of extortion for all types of outlaws, people in both rural and urban areas are becoming increasingly alarmed and angry. Their anger seems to be focused largely on the National Front government and the military for being unable to protect its citizens against violence. Since the people most highly concerned about kidnaping are politically the most powerful class, their anger is an important factor in gauging the political stability of the government.

Outlook

The National Front under President Valencia has survived a series of crises and probably will manage to survive the present one. Valencia, who has displayed unexpected resources of strength on several critical occasions in the past, may again prove equal to the situation by forcing compromise on the warring factions in his own party and, through them, on the recalcitrant elements among the Liberals. Also, the current special session of Congress probably will pass certain measures, which although only partly satisfactory could serve to regenerate public confidence to some degree.

If the National Front lasts until next March, the future of Colombia's political system will turn on the composition of the Congress to be elected at that time. The National Front must control Congress in order to function at all, and, if the opponents of the coalition can control as little as 34 percent of the seats in either house, they could demolish the Front, or at least stymie the government if they felt such tactics would advance their cause. Under such circumstances, military leaders might intervene.

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